

Message Text

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PAGE 01 RIO DE 04440 302224Z

73

ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01 DRC-01

/174 W

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R 302031Z NOV 73

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 9758

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

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E.O. 11652: GDS

TAGS: EFIN, ETRD, BR

SUBJECT: POSSIBLE BRAZILIAN MOVES IN NEAR FUTURE

1. WELL-INFORMED SOURCES INCREASINGLY ARE INDICATING TO US THE LIKELIHOOD OF GOB TAKING ACTION, PRIOR ACCESS OF GEISEL TO PRESIDENCY NEXT MARCH 15, TO MODIFY EXISTING INCENTIVE SYSTEM FOR STIMULATION OF EXPORTS, AND TO ACCOMPLISH A DEPRECIATION OF THE CRUZEIRO WHICH WIDELY CONSIDERED NOW TO BE OVERVALUED.

2. WITHIN EXISTING STRUCTURE, EXPORT GROWTH CONTINUES HIGHLY SATISFACTORY BUT THERE IS REAL CONCERN THAT U.S. AND EUROPEAN COMMUNITY VIEW STRUCTURE UNFAVORABLE, AND THAT THIS VIEW MAY PREJUDICE BRAZILIAN OBJECTIVES IN FORTHCOMING BILATERAL AND GATT TRADE NEGOTIATIONS. NOT CLEAR WHAT EXPORT INCENTIVES WOULD REPLACE PRESENT RELIANCE ALMOST EXCLUSIVELY ON TAX EXEMPTIONS, BUT MORE REALISTIC

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PAGE 02 RIO DE 04440 302224Z

CRUZEIRO RATE APPARENTLY AMONG THEM. STUDIES ARE RELIABLY

REPORTED TO BE UNDERWAY TO DEFINE PROBLEM AND RECOMMEND COURSE OF ACTION.

3. SEVERAL LEADING ECONOMISTS ARE STATING THAT PRESENT CRUZEIRO OVERVALUATION, ATTRIBUTED TO RECENT APPRECIATION OF U.S. DOLLAR AND TO ACCELERATING DOMESTIC INFLATION, IS 10 PERCENT AND POSSIBLY MORE. ILLEGAL PARALLEL MARKET, UNTIL RECENTLY AVERAGING 7 TO 9 PERCENT OVER ESTABLISHED RATE, HAS MOVED UP TO PREMIUM OF 12 TO 15 PERCENT. OPINIONS VARY AS TO BEST MEANS FOR CARRYING OUT THE DEVALUATION, WHETHER TO HAVE PEG CRAWL FASTER, OR TO MAKE ONE OR MORE SUBSTANTIAL UPWARD REVISIONS.

4. PREVIOUS SPECULATION THAT DECISIONS IN THESE AREAS WOULD BE LEFT FOR INCOMING GEISEL GOVERNMENT HAS BEEN DISPLACED BY BELIEF THAT MEDICI GOVERNMENT AND SPECIFICALLY MINFIN DELFIM NETO, IN INTERESTS OF CONTINUITY AND GOOD MANAGEMENT, HAVE MADE DECISION TO GET THESE MATTERS STRAIGHTENED OUT PRIOR MARCH 15.

5. COMMENT: TO AVOID IMPACT ON GUANABARA DECEMBER PRICE INDEX, SURVEY FOR WHICH OCCURS DURING MID-MONTH, SUBSTANTIAL

RATE CHANGE, OR SERIES SMALLER CHANGES, PRESUMABLY WOULD BE DEFERRED UNTIL SECOND HALF OF DECEMBER OR EVEN LATER. TIMING OF COURSE WILL RELATE ALSO TO MOVEMENTS ELSEWHERE WITHIN INTERNATIONAL FLOATING RATES.
BOONSTRA

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